

**REPORT OF THE AUDIT OF THE  
FORMER HARLAN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2014**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER HARLAN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2014**

The Auditor of Public Accounts has completed the former Harlan County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$44,673 from the prior year, resulting in excess fees of \$725,134 as of December 31, 2014. Receipts decreased by \$44,241 from the prior year and disbursements increased by \$432.

#### **Report Comments:**

- 2014-001 The Former Harlan County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations
- 2014-002 The Former Harlan County Sheriff Should Not Have Spent Fee Receipts Or Drug Account Funds On Disallowed Disbursements
- 2014-003 Cell Phone Disbursements Have Resulted In Disallowed Disbursements Totaling \$1,787
- 2014-004 The Former Harlan County Sheriff Should Have Strengthened Internal Controls Over Pre-Approved Overtime Request Forms
- 2014-005 The Former Harlan County Sheriff Should Have Improved Internal Controls Over Budgeting Procedures To Comply With Resolution
- 2014-006 Internal Controls Over Drug Account Disbursements Should Have Been Strengthened

#### **Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.



## CONTENTS

## PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS .....	4
NOTES TO FINANCIAL STATEMENT.....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	13
COMMENTS AND RECOMMENDATIONS.....	17





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Dan Mosley, Harlan County Judge/Executive  
The Honorable Leslie Smith, Harlan County Sheriff  
The Honorable Marvin Lipfird, Former Harlan County Sheriff  
Members of the Harlan County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying statement of receipts, disbursements, and excess fees - regulatory basis of the former County Sheriff of Harlan County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable Dan Mosley, Harlan County Judge/Executive  
The Honorable Leslie Smith, Harlan County Sheriff  
The Honorable Marvin Lipfird, Former Harlan County Sheriff  
Members of the Harlan County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2015 on our consideration of the former Harlan County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Harlan County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.



The Honorable Dan Mosley, Harlan County Judge/Executive  
The Honorable Leslie Smith, Harlan County Sheriff  
The Honorable Marvin Lipfird, Former Harlan County Sheriff  
Members of the Harlan County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Former Harlan County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations
- 2014-002 The Former Harlan County Sheriff Should Not Have Spent Fee Receipts Or Drug Account Funds On Disallowed Disbursements
- 2014-003 Cell Phone Disbursements Have Resulted In Disallowed Disbursements Totaling \$1,787
- 2014-004 The Former Harlan County Sheriff Should Have Strengthened Internal Controls Over Pre-Approved Overtime Request Forms
- 2014-005 The Former Harlan County Sheriff Should Have Improved Internal Controls Over Budgeting Procedures To Comply With Resolution
- 2014-006 Internal Controls Over Drug Account Disbursements Should Have Been Strengthened

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

June 22, 2015

HARLAN COUNTY  
MARVIN LIPFIRD, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$ 107,366	
Sheriff Security Service	6,970	
Child Support Service Fee	1,910	\$ 116,246

U.S. Army Corp of Engineers - Lake Patrol	8,100
---	-------

Fiscal Court	93,863
--------------	--------

County Clerk - Delinquent Taxes	74,800
---------------------------------	--------

Commission On Taxes Collected	439,530
-------------------------------	---------

Fees Collected For Services:

Auto Inspections	7,739	
Accident and Police Reports	263	
Serving Papers	30,820	
Carrying Concealed Deadly Weapon Permits	10,880	
Conveying	9,054	58,756

Other:

Add-On Fees	52,514	
Miscellaneous	1,421	
Telecommunication Commissions	4,437	58,372

Interest Earned	282
-----------------	-----

Total Receipts	849,949
----------------	---------

Disbursements

Operating Disbursements:

Contracted Services-	
Advertising	2,606
Vehicle Maintenance and Repairs	6,698
Materials and Supplies-	
Office Materials and Supplies	4,221

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
MARVIN LIPFIRD, FORMER SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2014  
(Continued)

Disbursements (Continued)

Operating Disbursements: (Continued)

Auto Expense-		
Gasoline	\$	85
Vehicle Parts		1,113
Other Charges-		
Postage		1,323
Building Supplies		690
Transporting		3,299
Training		8,777
Feed Jury		472
Credit Card		201
Ammunition		743
Towed Vehicles		900
Drug Dog		164
Serving Paper Returns		520
Drug Testing		205
Miscellaneous		<u>1,354</u>
Total Disbursements		33,371
Less: Disallowed Disbursements		
Inadequate Documentation	\$	314
Not Reasonable Or Necessary		<u>2,106</u>
Total Disallowed Disbursements		<u>2,420</u>
Total Allowable Disbursements	\$	<u>30,951</u>
Net Receipts	\$	818,998
Less: Statutory Maximum		<u>93,864</u>
Excess Fees Due County for 2014		725,134
Payments to Fiscal Court - Multiple Dates		<u>722,714</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u><u>2,420</u></u>

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Harlan County Sheriff is required by the Fiscal Court to participate in a fee pooling system. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The Fiscal Court has authorized the Sheriff to spend \$3,000 per month, for a total of \$36,000 per year from the official operating account. The remaining funds are then paid to the County Treasurer. The County Treasurer pays most of the operating expenses for the fee official.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Harlan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Harlan County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Asset Forfeiture Account – State

The former Harlan County Sheriff maintained an official bank account for monies awarded by court orders. The beginning balance as of January 1, 2014 was \$74,553. During 2014, the former Sheriff received funds totaling \$14,501. The account earned interest income of \$36. The former Sheriff expended \$16,094 and transferred \$72,996 to the incoming Sheriff leaving an ending balance of \$0 as of December 31, 2014.

Note 5. Asset Forfeiture Account - Federal

The former Harlan County Sheriff maintained an official bank account for monies obtained from seizures and sales of property used in illegal drug activities. The purpose of this fund was to purchase necessary equipment for operating the Sheriff's office. The beginning balance as of January 1, 2014 was \$1,672. During 2014, the account earned interest income of \$1. The former Sheriff properly transferred \$1,673 to the incoming Sheriff leaving a balance of \$0 of forfeited funds in the account as of December 31, 2014.

HARLAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 6. U.S. Army Corp of Engineers – Lake Patrol Contract

The former Harlan County Sheriff's Department entered into an agreement with the U.S. Army Corp of Engineers for the period beginning May 23, 2014 and ending September 7, 2014. The purpose of the grant was to provide law enforcement services at Martins Fork Lake, Harlan County, Kentucky. The former Sheriff received salary reimbursements of \$8,100 during the 2014 calendar year.

Note 7. Evidence Account

The former Harlan County Sheriff opened an official bank account in May 2014 for monies confiscated by the Sheriff's office. During 2014, the former Sheriff deposited funds totaling \$41,213 and disbursed \$1,928 in accordance with court orders. The former Sheriff properly transferred \$39,285 to the incoming Sheriff, leaving a balance of \$0 as of December 31, 2014.

THIS PAGE LEFT BLANK INTENTIONALLY



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Dan Mosley, Harlan County Judge/Executive  
The Honorable Leslie Smith, Harlan County Sheriff  
The Honorable Marvin Lipfird, Former Harlan County Sheriff  
Members of the Harlan County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the former Harlan County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated June 22, 2015. The former County Sheriff's financial statement was prepared on a regulatory basis of accounting, which demonstrated compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the former Harlan County Sheriff's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Harlan County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Harlan County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-002, 2014-003, 2014-004, 2014-005, and 2014-006 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the former Harlan County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-002 and 2014-003.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

June 22, 2015

## COMMENTS AND RECOMMENDATIONS



HARLAN COUNTY  
MARVIN LIPFIRD, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001    The Former Harlan County Sheriff's Office Lacked Adequate Segregation Of Duties Over Receipts, Disbursements, And Bank Reconciliations

---

The former Harlan County Sheriff's office lacked adequate segregation of duties over receipts, disbursements, and bank reconciliations. These control deficiencies existed because the bookkeeper's responsibilities included preparing daily checkout sheets, posting daily checkout sheets to the receipt ledger, preparing and posting disbursements to the ledger, signing checks, preparing the quarterly reports, and reconciling the ledgers to bank records. Although the former Sheriff had implemented some compensating controls to help offset this weakness, those controls were not effective enough to prevent or detect errors and misstatements in a timely manner, such as disallowed disbursements in comment #2014-002.

A proper segregation of duties of over accounting duties is essential for preventing asset misappropriation and/or inaccurate financial reporting. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Budget restrictions may limit the number of staff the Sheriff can hire. As a result, it may not be feasible to segregate accounting duties to different employees. In this situation, strong oversight over receipts, disbursements, and reconciliations should be performed by an employee not currently performing any of those processes. The former Sheriff should have segregated duties or implemented effective compensating controls to offset this weakness. If compensating controls had been implemented, the former Sheriff should have documented his oversight on the appropriate source document. The following are examples of other controls the Sheriff could have implemented:

- The former Sheriff could have periodically recounted and deposited cash receipts. This would have been documented by initialing the daily checkout sheet and deposit ticket.
- The former Sheriff could have examined checks prepared by the bookkeeper and compared to proper documentation. This would have been documented by initialing the supporting documentation.
- The former Sheriff could have received bank statements unopened and reviewed the statements for any unusual items prior to giving them to the individual performing the bank reconciliations.

*Former Sheriff's Response: No Response.*

HARLAN COUNTY  
 MARVIN LIPFIRD, FORMER SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2014  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Former Harlan County Sheriff Should Not Have Spent Fee Receipts Or Drug Account Funds On Disallowed Disbursements

---

The former Harlan County Sheriff disbursed funds from the official fee account and the drug account for disallowed expenses. Disbursements for personal expense, purchases not properly supported by receipts, and late payment fees are summarized below:

	<u>Fee Account</u>	<u>Drug Account</u>
Not Reasonable or Necessary:	\$ 1,900	\$
Food Items, including cigarettes	5	51
Minimum payment due on credit card:	201	
Cell Phone Expenses:		1,787
Total Not Reasonable or Necessary:	\$ 2,106	\$ 1,837

  

	<u>Fee Account</u>	<u>Drug Account</u>
Inadequate Documentation:	\$ 314	\$
Late Fees:		17
Total Disallowed Disbursements	<u>\$ 2,420</u>	<u>\$ 1,854</u>

In Funk v. Milliken, 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Disbursements documented above were not in compliance with Funk v. Milliken; therefore resulting in disallowed disbursements. The former Sheriff did not have controls in place to ensure that all disbursements were in compliance with Funk v. Milliken, which could have prevented disbursements that were not adequately documented, necessary, or reasonable in amount.

The former Sheriff should personally reimburse the 2014 official fee account a total of \$2,420 and the drug account a total of \$1,854 for these disallowed expenses. Once the reimbursements are made, the former Sheriff should then pay any additional excess fees to the Fiscal Court.

*Former Sheriff's Response: No Response.*



HARLAN COUNTY  
MARVIN LIPFIRD, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2014  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 Cell Phone Disbursements Have Resulted In Disallowed Disbursements Totaling \$1,787

---

During calendar year 2014, the Harlan County Sheriff's office paid for six (6) cell phones. Of the 6 cell phones with cell phone providers, the Sheriff's office identified Sheriff's office employees as users for four cell phone numbers, but was unable to identify users for the remaining two lines. Review of the usage of the two unidentified user lines noted that both of these lines were not being used. Charges for the unused lines totaled \$1,727 for monthly contract costs for calendar year 2014. These lines were cancelled in December 2014 and incurred a \$60 fee for early termination of the cell phone contract. As a result, the Sheriff's office incurred a total of \$1,787 for unused cell phone charges and early termination fees, which are considered disallowed disbursements. These expenses were paid from the drug account.

Unnecessary charges for cell phones are a result of lack of monitoring of cell phone use of the Sheriff's office. In Funk v. Milliken, 317 S.W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature.

The former Sheriff could have initiated controls over cell phone disbursements to ensure services charged were necessary for the Sheriff's office. Cell phones should only be provided to authorized users, and any personal use of department funded cell phones should be reported to the County Treasurer for reporting purposes. The former Sheriff should have developed a written cell phone usage policy and should personally repay \$1,787 to the drug account.

*Former Sheriff's Response: No Response.*

2014-004 The Former Harlan County Sheriff Should Have Strengthened Internal Controls Over Pre-Approved Overtime Request Forms

---

All employees of the former Sheriff's office reported hours worked on an office-wide spreadsheet for each pay period. From this spreadsheet, the bookkeeper calculated regular and overtime hours worked, and prepared an electronic spreadsheet that was submitted to the Treasurer's office for payroll processing. It was the policy of the former Sheriff's office that all overtime be pre-approved by a supervisor, and documented by a signed overtime request form. However, it was noted during review of manual spreadsheets maintained in the former Sheriff's office that not all overtime hours earned and paid were properly supported by an overtime request form. It was also noted that overtime request forms that had been submitted were not marked approved and were not always signed by a supervisor.

HARLAN COUNTY  
 MARVIN LIPFIRD, FORMER SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2014  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-004 The Former Harlan County Sheriff Should Have Strengthened Internal Controls Over Pre-Approved Overtime Request Forms (Continued)

---

The former Sheriff had properly designed controls to ensure all overtime requests were properly authorized; however these controls did not operate as intended and employees received overtime pay that was not properly authorized and approved. The overtime policy per the Harlan County Sheriff's Office policy and procedure manual for non-exempt employees states, "All overtime work must receive the prior authorization of the employee's supervisor. Failure to work scheduled overtime or overtime worked without prior authorization from the supervisor may result in disciplinary action, up to and including termination of employment." Payroll disbursements for overtime were not in compliance with the overtime policy set by the Harlan County Sheriff's Office policy and procedure manual because all overtime hours earned and paid were not properly supported by an overtime request that was approved and signed by a supervisor.

Procedures for pre-approved overtime authorizations establish oversight for payroll disbursements. The former Sheriff, or a designee, should have verified all overtime hours earned were properly supported by a pre-approved overtime request form prior to payment.

*Former Sheriff's Response: No Response.*

2014-005 The Former Harlan County Sheriff Should Have Improved Internal Controls Over Budgeting Procedures To Comply With Resolution

---

The Harlan County Sheriff fee pools with the Harlan County Fiscal Court. On May 21, 2009, the Fiscal Court passed a resolution allowing the Sheriff to fee pool. This resolution permits the Sheriff to spend up to \$3,000 per month for a total of \$36,000 a year from his official fee account. Although the former Sheriff submitted a budget to the Fiscal Court for calendar year 2014, the approved budget was for anticipated receipts only, and did not include budgeted expenses per resolution approved by the Fiscal Court. This condition is a result of a lack of controls over the budgeting process. By not preparing a budget for disbursements, the former Sheriff could have overspent the amount that he was allowed from his official fee account.

Per Department of Local Government's County Budget Preparation and State Local Finance Officer Policy Manual, "the State Local Finance Officer requires that the fiscal court approve a calendar year budget for each fee office as a component of the county's budget preparation process by January 15th of each year." KRS 68.210 states "the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe a system of uniform accounts for all counties and county officials."

The former Sheriff should have submitted a budget to the Fiscal Court that included budgeted expenses per resolution approved by the Fiscal Court and to comply with KRS. The Fiscal Court would have paid all other disbursements.

*Former Sheriff's Response: No Response.*

HARLAN COUNTY  
MARVIN LIPFIRD, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2014  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-006 Internal Controls Over Drug Account Disbursements Should Have Been Strengthened

---

During the course of the audit, we noted detectives were authorized to make ATM withdrawals in the amount of \$1,500 from the drug fund bank account. In addition, deputies were permitted to make miscellaneous cash purchases in the amount of \$884 from available drug buy money on hand. This condition is a result of a lack of internal controls over drug account disbursements. These occurrences weaken internal controls over disbursements in which the former Sheriff, or his designee, should have authorized disbursements in advance. Per Department of Local Government's County Budget Preparation and State Local Finance Officer Policy Manual, the State Local Finance Officer requires "disbursements by check only" KRS 68.210 states "the administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe a system of uniform accounts for all counties and county officials." There was no management oversight over these disbursements by allowing detectives to personally withdraw funds resulting in an inadequate segregation of duties, without effective oversight.

The former Sheriff should have discontinued the practice of ATM card withdrawals or improved internal control procedures and discontinued the practice of deputies making purchases made from cash money on hand.

*Former Sheriff's Response: No Response.*

